

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 2000 - SB 2386

February 15, 2016

SUMMARY OF BILL: Establishes a Hall Income Tax (HIT) credit, for tax years beginning on or after January 1, 2017, equal to 100 percent of the value of an educational donation by a taxpayer. Limits the credit to \$50,000 per taxpayer in any tax year. Defines an “educational donation” as any gift or contribution of money, materials, or property from a taxpayer to, and for the benefit of, a qualified school, local education agency (LEA), school support organization, or a qualified school foundation. Defines “qualified school” as any public or nonpublic school offering education in any of the grades kindergarten through grade twelve (K-12).

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – \$17,930,300/FY17-18 and Subsequent Years

Increase Local Revenue – Net Impact – \$4,131,400/FY17-18 and Subsequent Years

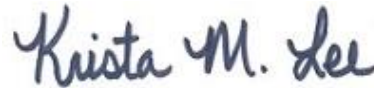
Assumptions:

- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a six percent tax on income derived from dividends on stock or from interest on bonds.
- Given the tax changes shall be applied to tax years beginning with tax year 2017, and assuming that 100 percent of HIT owed for tax year 2017 is collected no later than June 30, 2018, the first year impacted by this bill will be FY17-18.
- The current Fiscal Review Committee estimate for HIT collections in FY16-17 is \$270,000,000. This number is assumed to remain constant in subsequent years under current law.
- There are three groups of taxpayers that will be incentivized to make an educational donation pursuant to this bill: taxpayers with dependents in grades K-12; older taxpayers with grandchildren in grades K-12; and all others.
- Based on information provided by the Department of Revenue, the maximum decrease in HIT revenue for taxpayers with dependents in grades K-12 is estimated to be \$26,515,998.
- It is assumed that 60 percent of these taxpayers would annually make educational donations equal to their income tax liability, up to \$50,000, resulting in a recurring decrease in HIT revenue of \$15,909,599 (\$26,515,998 x 60%).

- The maximum decrease in HIT revenue for older taxpayers with grandchildren in grades K-12 is estimated to be \$75,086,693.
- It is assumed that 10 percent of these taxpayers would annually make educational donations equal to their income tax liability, up to \$50,000, resulting in a recurring decrease in HIT revenue of \$7,508,669 ($\$75,086,693 \times 10\%$).
- The maximum decrease in HIT revenue for all other taxpayers is estimated to be \$83,590,739.
- It is assumed that five percent of these taxpayers would annually make educational donations equal to their income tax liability, up to \$50,000, resulting in a recurring decrease in HIT revenue of \$4,179,537 ($\$83,590,739 \times 5\%$).
- The total recurring decrease in HIT revenue is estimated to be \$27,597,805 ($\$15,909,599 + \$7,508,669 + \$4,179,537$).
- Based on apportionments of HIT collections for the last three fiscal years (FY12-13, FY13-14, and FY14-15), it is estimated that the state retains 64.97 percent of HIT revenue and local governments are apportioned 35.03 percent.
- The recurring decrease in HIT revenue is estimated to be \$17,930,294 for the state ($\$27,597,805 \times 64.97\%$), and \$9,667,511 for the local government ($\$27,597,805 \times 35.03\%$).
- The total amount of educational donations by HIT taxpayers under current law is unknown. However, it is estimated that 50 percent of donations for which a HIT credit will be claimed are new donations to public schools, made as a direct result of the proposed legislation.
- As a result, the proposed HIT credit is estimated to increase local revenue by approximately \$13,798,902 on a recurring basis ($\$27,597,805 \times 50\%$).
- The net recurring increase in local revenue as a result of this bill is estimated to be \$4,131,391 ($\$13,798,902 - \$9,667,511$).
- The requirements of the proposed legislation can be accomplished utilizing existing state and local resources. Any impact on state and local expenditures will be not significant.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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